

The Mayor
Birzebbuga Local Council
Dar Birzebbuga
Triq Santa Marija
Birzebbuga BBG 1651
Malta

5th June 2020

Dear Sir,



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

During our audit for the year ended 31 December 2019 we have reviewed the accounting systems and procedures operated by the Local Council. We set out in this report the more important points that arose as a result of our review.

1 Previous year's management letter (for the year ended 31 December 2018)

1.1 Compilation of the fixed asset register

While testing the fixed assets, it was noted that the register was not fully updated since 'Assets Under Construction' were still not included in the register (refer to note 2.2).

1.2 Pre-regional debtors

Amount due from Zurrieq Joint Committee, which has been carried forward from December 2008, was not yet recovered (refer to note 2.4).

1.3 Debit balances in creditors' list

During the audit testing, we have again identified debit balances in creditors' list (refer to note 2.8).

1.4 Trade payables

Reconciliations were still not being prepared for all suppliers selected for testing (refer to note 2.8).

1.5 Tipping fees

The Council did not need to account for accrued income related to advancements by DLG in respect of tipping fees, as there was none as at year end.

1.6 Prepayments

During the year under review, a discrepancy was again found in rent prepayment (refer to 2.7).

1.7 Accruals

We are pleased to note that no discrepancies were noted in this year's audit.

1.8 Accrued income

We are pleased to note that no discrepancies were noted in this year's audit.

1.9 Expected credit loss

As in the previous year, the Council did not calculate and account for expected credit loss as required by IFRS 9 (refer to note 2.5).

1.10 Income

Even though the Council did not record a loss during the year under review, when testing the Local Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during the year, the Local Council did not manage to obtain a positive result (refer to note 2.9).

1.11 Budgets

A discrepancy was noted between the Council's budgeted figures and the actual figures (refer to note 2.10).

2 Management letter points for the year

2.1 Intangible assets - amortisation

While testing the amortisation charge for the year, we noted that the charge was understated by €1,090. Given that the amount was not material, no adjustment was proposed, and it was included with the list of unadjusted errors (refer to UE 5 in note 2.15).

2.2 Compilation of the fixed asset register

We noted that the register was not fully updated since 'Assets Under Construction' amounting to €21,327 were not included in the register. It is important that the register is updated regularly.

We recommend that the fixed asset register is kept updated and reconciled to the nominal accounts.

2.3 Property, plant and equipment - depreciation

While testing the depreciation charge for the year, we noted that the charge was overstated by € 1,085. Given that the amount was not material, no adjustment was proposed, and it was included with the list of unadjusted errors (refer to UE 4 in note 2.15).

Further to the above, a reclassification was passed between the provision for depreciation for 2019 between plant and machinery and office equipment (refer to RECL C/19 note 2.16).

2.4 Pre-regional debtors

As in previous years, an amount of € 67,619 due from Zurrieq Joint Committee was included with the receivables as at year-end. The Council is claiming that this amount relates to pre-regional contraventions paid since December 2008 and remitted to the Committee in error. During the year ended 31 December 2019 there was no movement in this balance.

On the other hand, in its meeting held on 9 April 2012, the authorised officer of the Joint Committee indicated that €60,799 have actually been deposited in the account specifically held on behalf of Birzebuga Local Council. The Joint Committee said that it would investigate the Council's claim for payment but to date the Committee has neither communicated the results of its investigation nor acknowledged acceptance to pay this amount.

Since there have been no recent developments and because it is our understanding that the Zurrieq Joint Committee is in the process of winding down its role in the LES, recoverability of this balance remains highly doubtful. We have qualified our audit opinion in this respect.

Once again, we recommend that the Council liaises with the Joint Committee and requests an update about the progress of the investigation. If future evidence indicates that the balance is no longer receivable in part or in full, the Council should record a provision against this amount or write it off. It is the Council's responsibility to investigate all differences and refer them to the Department for Local Government accordingly.

2.5 Expected credit loss

The Council did not calculate and account for the 'expected credit loss' as required by IFRS 9. The receivable balances of the Council are composed of balances with government related entities. Given the low risk associated with such entities the default risk is insignificant and will not result into a material amount. Assuming a low expected credit loss of 1% would give € 1,255 as an allowance for expected credit losses. Since amount is not material, this was included with the list of unadjusted errors (refer to UE 2 in note 2.15).

2.6 Related party balances - Receivable

While testing the related party balances, a discrepancy amounting to € 128 resulted between the Council's accounts and the accounts of the related party. Given that the amount was not material, this was included with the list of unadjusted errors (refer to UE 6 in note 2.15).

2.7 Prepayments

While testing prepayments, we noted that rent prepayment was overstated by € 15. Given that the amount was not material, this was included with the list of unadjusted errors (refer to UE 3 in note 2.15).

2.8 Trade payables

While performing our testing on trade payables, we selected four suppliers for testing and found that no reconciliations were carried out. Reconciliations were not carried out for the following:

Supplier	Annual turnover	Year-end balance
Saviour Mifsud	€ 103,368	€ 16,435
Polidano Brothers Ltd.	€ 98,270	€ 82,637
Christopher Bezzina	€ 53,038	€ 3,184
Charlie Fenech	€ 49,152	€ 3,436

While we acknowledge that a number of creditors do not prepare statements and duly make them available, we strongly suggest that a periodical exercise that confirms creditor balances is still performed.

Creditor reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of the Local Council whilst also ensuring that the supplier balances reflected in the accounts are accurate.

Further to the above, the balance relating to Mr Alfred Schembri which was included in the trade receivables list was reclassified to third party borrowings and the debit balances in the creditors list were reclassified to other debtors as purchase ledger debit balances (refer to RECL A/19 and RECL B/19 note 2.16).

2.9 Income

When testing the Local Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during the year, we noted that the Local Council did not manage to obtain a positive result equal to 10% of the financial allocation, as required by Section 4c of the Local Council (Financial) Regulations, 1993. The Executive Secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance in terms of section 55 of the Local Councils Act.

2.10 Budgets

While reviewing the budget for 2019, we noted that there were variances from actual results. Below is the main material difference between budgets and actuals:

	Actual 31-Dec-19	Budget	Difference between actuals and budgets
<i>Administration and other expenditure:</i>	€	€	€
Depreciation	219,253	137,767	81,486

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. Therefore, budgets prepared should be as accurate as possible.

2.11 Rent

While testing the rent payable for the year, it was noted that there are no agreements in place regarding the renting of 2 rooms florence nightgale amounting to € 699 per annum.

We recommend that contracts are drafted between the parties, listing all the terms and details of the rent agreement. This is important to give legal stature to the agreement.

2.12 Wages reconciliation

While comparing the wages as per accounts to the FS7, it was noted that the wages expense in the accounts was understated by € 51. Given that the amount was not material, no adjustment was proposed, and this was included with the list of unadjusted errors (refer to UE 1 in note 2.15).

2.13 Leave balances carried forward to 2020

While performing our testing on the sample of employees selected to check the amount of leave carried over to 2020, it was noted that an employee exceeded the maximum of 48 hours allowed to be carried over.

We recommend that the Local Council monitors leave balances on a monthly basis so that leave is gradually taken, and this issue does not occur again.

2.14 Tenders

While performing our testing on expenditure, we found that one of the selected expenses which exceeded €5,000 in one calendar year did not have a tender or an agreement with that supplier in place, as per below:

Supplier	Amount including VAT
Lawrence Cassar	€6,744

The procurement procedures were not followed with the above supplier. If the total value of five thousand euro (€5,000) is exceeded during one calendar year, a tender should be issued.

2.15 Unadjusted errors

During the audit, we encountered errors which were not material both individually and in aggregate for which there was no need to adjust the financial statements. Refer to the details below:

No.	Description	Management letter point	SoCI Dr (+) / Cr (-)	SoFP Dr (+) / Cr (-)
UE 1	Dr P/L - Wages	2.12	51	
	Cr B/S			(51)
	Being immaterial difference found between accounts and FS7 which was unexplained			
UE 2	Dr P/L - Allowance for expected credit loss	2.5	1,255	
	Cr B/S - Provision for ECL			(1,255)
	Being allowance for expected credit losses not accounted for			
UE 3	Dr P/L	2.7	15	
	Cr B/S - Prepayment			(15)
	Being overstatement of prepayment			
UE 4	Dr B/S - Depreciation	2.3		1,085
	CR P/L - Depreciation charge		(1,085)	
	Being overstatement of depreciation			
UE 5	Dr P/L - Amortisation	2.1	1,090	
	Cr B/S - Amortisation			(1,090)
	Being underestimation of amortisation			
UE 6	Dr P/L	2.6	128	
	Cr B/S - RP Balance (WasteServ Malta Ltd)			(128)
	Being overstatement of related party			
	Total potential adjustment		1,454	(1,454)

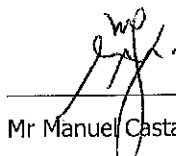
2.16 Adjustments and reclassifications

No audit adjustments were passed. Please find the list of reclassifications below:

No.	Description	Management letter point	Statement of Comprehensive Income	Statement of Financial Position
			Dr (+) / Cr (-)	Dr (+) / Cr (-)
			€	€
	Reclassifications			
RECL A/19	Purchase ledger debit balances	2.8		191
	Creditors Control Account			(191)
	Being negative balances in Cr list			
RECL B/19	Creditors Control Account	2.8		303,421
	Third Party Borrowings			(303,421)
	Being reclass of balance re to Alfred Schenbri			
RECL C/19	Acc. Dep.-Plant & Machinery	2.3		115
	Acc. Dep.-Office Furniture			(115)
	Being reclass of PPE depreciation as requested by accountant			

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Local Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would also like to take this opportunity to thank the Mayor, Executive Secretary and staff for their help during the course of our audit.



Mr Manuel Castagna
For and on behalf of Nexia BT